

BAC 201: ACCOUNTING FOR LIABILITIES AND EQUITIES**DATE: 23/7/2019****TIME: 8.30-10.30 AM**

INSTRUCTIONS: Attempt Question One and any other Two Questions**QUESTION ONE (30 MARKS)**

- a) Mueni lost her inventory in a fire on 17 march 2009. The last time that stock taking had been done was on 31 December 2008, the last balance sheet date, when the inventory was valued at cost at sh.39, 000,000. Purchase from then until 17 march 2009 amounted to sh 163,400,000 and sales in that period were sh 197,000,000. All sales were made at a uniform gross profit margin of 20%.

Required

- i. Calculate the amount for sales. (3 marks)
 - ii. Prepare trading account for the period 2009. (7 marks)
- b) Giving reasons classify the following as either liability or equity.
- i. Company B issues ordinary shares. Shareholders are entitled to a pro rate share of any dividends or other distributions of the entity. Dividends are discretionary. (3 marks)

- ii. The facts are the same as in a) except that ,because of legal requirements in its jurisdiction, Company B is required to pay an annual dividend of at least 10 % of the par value of its issued shares. (3 marks)
- c) The facts are the same as in A above However, in this example, on company B jurisdiction, tax is not payable on distributed profit under sh. 2,000,000. A 50 % tax rate applies to all undistributed profits and to any distributed profits in excess of sh. 2,000,000. Consequently, company B always plans to make dividend payment of at least 2,000,000 in the light of the significant tax benefit. (3 marks)
- d) The facts are the same as in ii .However, in this example, company B must redeem the shares for par in the event of an initial public offering (IPO). Company B has discretion on whether or not to initiate an IPO. (3 marks)
- e) Company B has 1000,000 preference shares in issue, which are all held by institutional investors. The preference shares must be redeemed for cash on the earlier of five years from the issue date of the shares or the date upon which SME A initiates an IPO.SME A has discretion on whether or not to initiate an IPO. (3 marks)
- f) There are some financial instruments that meet the definition of a liability but are classified as equity because they represent the residual interest in the asset an entity. Comment. (5 marks)

QUESTION TWO (20 MARKS)

- a) Explain the distinguishing features of a finance lease (6 marks)
- b) Highlight the factors which give rise to deferred taxation according to IAS 12 (8 marks)
- c) Explain the following terms as per the IFRS:
- (i) Equity
 - (ii) Financial liability instrument?

QUESTION THREE (20 MARKS)

Assume that accompany purchased a fixed asset in 1st January 2012 at a cost of kshs.8,000,000. Theresidual value of the asset is assumed to be Nil, and it is to be depreciated as a straight line basis over 4 years. The company claims 100%first year allowance and the corporation tax rate for each of the four years is assumed to be 35% profit after charging

depreciation is kshs 40,000,000 in each of the four years and there are no other timing differences. No capital expenditure taxes place in 2013, 2014 and 2015

Required

- a) Compute deferred tax (5 marks)
- b) Analyse timing differences (5 marks)
- c) Calculate profit after tax for each of the years (5 marks)
- d) Journal entries to record the income tax expense and related deferred tax liability for tax years 2012 and 2013 (5 marks)

QUESTION FOUR (20 MARKS)

Mutisya had the whole of his inventory stolen from his warehouse on the night of 20th August 2006 along with many of his accounting records including his sales and purchase day books. The sales and purchase ledgers were found in the car park. The following facts are known.

- a) inventory at the last balance sheet date was 31st march 2006, was sh.24,960,000 at cost
- b) receipts from debtors during the period 1st April to 20th august 2006 amounted to sh. 63,790,000

Accounts receivable were at: 31st march 2006 shs.28,556,000 at 20 august 2006 sh 24,666,000

- c) Payments to creditors during the period 1 April to 20 August 2006 amounted to sh.34,540,000.

Accounts payable were at 31 march 2006 sh 15,266,000 at 20 august 2006 sh 12,578,000

- d) the gross profit margin on all sales has been constant at 25%

Required

- i. Total accounts receivable 4 marks
- ii. Total accounts payable accounts, 4 marks
- iii. Sales and purchases 4marks
- iv. Trading account for the period 8marks

QUESTION FIVE (20 MARKS)

- a) On 1 January, 2013 SMA B issues 300,000 ordinary shares at sh. 12 share. The par value of the shares is sh. 4 per share. The cash consideration is payable to SMA B on 31 December, 2014. The shares are to be held in an escrow account until payment is received. However, the shareholders are eligible to vote and earn dividends on the shares during 2013 and 2014. Assume that the appropriate discount rate is 8 per cent. SMA B has a 31 December year-end.

Required

Prepare journal entries for

- i. January 1, 2013. (6 marks)
 - ii. December 31, 2014. (4 marks)
- b) Explain the features of puttable instruments. (10 marks)